Income-tax Act, 2025

Simplification of Income-tax Act, 1961

ToT, Kevadia

ANNOUNCEMENT

Announced by : **Hon'ble Finance Minister**

Date : July 23, 2024
Occasion : Union Budget Speech 2024
Venue : Lok Sabha

THE MANDATE

To make the Income-tax Act, 1961:

- Concise
- Lucid
- Easy to understand for a common graduate

Need For Simplified Act

- 250m lifted out of multidimension poverty in 10 yrs
- From 10th largest economy to 4th and possibly the 3rd
- Simplified Act for ease of doing business thru simpler language, consolidation, updating
- meeting requirements of a modern economy

INCOME TAX ACT, 2025
LEGISLATIVE TIMELINE

FEBRUARY 13,
2025
Original Income-tax Bill introduced in Lok Sabha

JULY 21,
2025
Parliamentary Select Committee submitted report with 285+ recommendations

AUGUST 8,
2025
Original Bill withdrown for revisions

AUGUST 12,
2025
Revised Income-tax (No. 2) Bill passed in Lok Sabha

AUGUST 12,
2025
Bill passed in Rajya Sabha

AUGUST 21,
2025
Presidential assent granted

AUGUST 21,
2025
Act notified in Gazette of India

APRIL 1,
2026
Act to become effective

Source: Select Committee Report (Parliament of India), Income Tax Act, 2025

EVENTS

• Announcement by Hon'ble FM	:	23 July 2024
• ITB, 2025 introduced in LS	:	13 Feb 2025
• Referred to Select Committee (SC) of LS (31 MPs)	:	Same day
• SC - deliberations held, including clause-by-clause	:	36 sittings
• SC Report presented to LS	:	21 July
• Original Bill withdrawn	:	August 08
• The Income-tax (No. 2) Bill, 2025 introduced in LS	:	August 11
• Bill - passed by Parliament and Presidential assent	:	August 21, 2025

TIMELINE

- Reading more than half a million words
- stakeholder consultations,
- initial drafting
- Review, TPL/Board,
- Expert Review, Redrafting
- Law Ministry consultations, etc

CONTRAST :

- UK Tax Law Rewrite Project : 14 years (1996-2010)
- Australia's Tax Law Improvement Project : 4 years (1993-1997)

Features

- New Act will come into force on 01 April 2026.
- ITA 2025 repeals and replaces ITA 1961
- Six decades in force after ITA 1922 repealed
- ‘Income-tax Act, 2025’

WHY A NEW ACT?

- Originally 298 sections, but increased to 819, since new provisions introduced as extensions of existing ones - section 115 series : 115AC, 115AD, 115JB, 115VP, etc.
- Was amended for 60 years+ …. Nearly 4,000 amendments
- Lesser amendments earlier, BUT later nearly 100 per yr
- 19 specific Taxation Laws Amendment Bills

Major policy changes, tax rate rationalization already carried out in last 10 years.

Unlike other Acts, Direct Tax law has been responsive to emerging domestic needs/global obligations thru annual Finance Acts.

MANDATE:

- Simplification, without losing/altering a legal nuance.
- Continuity in taxation principles/tax rates
- Grandfathering accrued rights and liabilities, no unintended disruptions.

MODALITIES ADOPTED

- Chapter-wise drafts prepared
- Review for correctness by a sub-committee
- Corrected drafts examined by TPL/CBDT
- Vetting by DOLA (coordination with Committee)
- Final corrections incorporated

Substantive Tax Amendments

(Not in simplification but in FA, 2025)

If a substantive change in law it was through FA and not simplification Bill.

amalgman1

Example:

Insertion of section 72A(6B) effective 01.04.26 - limiting cfd of accumulated losses in business reorganization to 8 AYs from when they were first computed for predecessor entity.

Amalgman.s.116(12).T.Ys.

Certain terms/phrases deliberately retained

- AV of property consisting of buildings or land "appurtenant thereto" .. - retained
- "For the purpose of employment" instead of 'for employment'- retained in 6(3)(b)
- 'As the case may be' – retained.

THE 'NOTWITHSTANDING' DEBATE

"Nothwithstanding" by "Irrespective of"

- 'Notwithstanding' (400 instances) served as a statutory override, - provision will apply despite anything to the contrary in other conflicting provisions.
- This interpretive function is preserved - lexical form used should be immaterial
- Even in UK, such archaic expressions generally avoided

“Notwithstanding”

- Both phrases used to establish the priority of one provision over another in cases of conflict.
- Neither is inherently broader or narrower than the other
- Irrespective of" means "without consideration for" or "regardless of“
- linguistic clarity
- Prioritize accessibility over formalism.

“In Respect Of”

- **In respect of income chargeable under section.....**

Replaced by - For ....

Eminent Commentator :

Difference in language “In respect of” under the old Act and “For” in new Act may create an issue

Structural Improvement : Eliminating Provisos and Explanations

Example of 'nested' structures:

- **Section 10 has 90 Explanations and 131 Provisos.**
- **Section 10(23C) contains 35 Provisos.**
- **The 3rd proviso includes 4 Explanations.**
- **The 2nd Explanation contains 8 provisos.**

There are provisos in clauses, Explanations to these provisos, and again, provisos to Explanations - making it extremely challenging to comprehend.

Eliminating Provisos and Explanations

- All provisos (about 1200) and Explanations (about 900) have been removed & consolidated in the main provision.
- Conditions, exceptions, carve outs and explanations sequenced in the main provision itself improves readability.
- Location of a proviso is merely a drafting convention.
- Content of provision important, not its structural placement.

No alphabetical suffixes to sections

Section numbering made easy :

- **Section 234A, 234B, 234C, 234D or Section 80A, 80B, 80C, 80D, 80E, 80G, 80GG, 80TTA, 133B, 80-IA, 35DDA etc**
- **Entire numbering system decluttered using a purely linear, sequential structure eliminating all alphabetical suffixes. (1 – 536)**
- **Straightforward to locate, cite compared to complex, historically accumulated alphabetical suffix system.**

Removing Redundancy

Nearly 250 sections were found either to be redundant, ineffective or needing consolidation with other sections

Examples :

Fringe Benefit	: ceased to apply from AY 2010-11
Section 10A	: no longer available from AY 2012-13
Section 10(33)	: US-64 Scheme transitional, irrelevant after AY 02-03

- Continuing……

Obsolescence : 1

294A. If the Central Government considers it necessary or expedient so to do for avoiding any hardship or anomaly or removing any difficulty that may arise as a result of the application of this Act to the **Union territories of Dadra and Nagar Haveli, Goa, Daman and Diu, and Pondicherry, or** in the case of the Union territory of Pondicherry, for implementing any provision of the Treaty of Cession concluded between France and India on the 28th day of May, 1956, ……**Provided** that the power conferred by this section **shall not be exercisable after the 31st day of March, 1967**, except for the purpose of rescinding an exemption, reduction or modification already made.

The UTs are now fully integrated into the Indian tax system….. No transitional need for this provision and any operational tax provisions would have been absorbed/overridden by now.

Obsolescence : 2

Section 47 (1961) - Parent-Subsidiary Transfers

"Nothing contained in clause (iv) or clause (v) shall apply to the transfer of a capital asset made after the 29th day of February, 1988, as stock-in-trade."

The 1988 temporal marker is now obsolete….all current transfers occur after this date, making the proviso perpetually operative. Section 70 (2025) removes this expired qualifier and states directly: "capital asset, not being stock-in-trade."

"not being stock-in-trade" qualifier serves as anti-avoidance protection: it prevents recharacterization of capital assets into stock-in-trade at transfer moment, which section 2(14)'s definitional scope alone cannot address.

Obsolescence : 3

71A. Where in respect of the assessment year commencing on the 1st day of April, 1993 or the 1st day of April, 1994, the net result of the computation under the head "Income from house property" is a loss ….and set off in the assessment year commencing on the 1st day of April, 1995, and the balance, if any, in the assessment year commencing on the 1st day of April, 1996, against the income under any head.

75. Where the assessee is a firm, any loss in relation to the assessment year commencing on or before the 1st day of April, 1992, which could not be set off against any other income of the firm and which had been apportioned ….

Obsolescence : 4

71A. Where in respect of the assessment year commencing on the 1st day of April, 1993 or the 1st day of April, 1994, the net result of the computation under the head "Income from house property" is a loss ….and set off in the assessment year commencing on the 1st day of April, 1995, and the balance, if any, in the assessment year commencing on the 1st day of April, 1996, against the income under any head.

75. Where the assessee is a firm, any loss in relation to the assessment year commencing on or before the 1st day of April, 1992, which could not be set off against any other income of the firm and which had been apportioned ….

Depreciation

3,950 words: 5 Provisos/5 Explanations recast in compact 1,400 words.

Sunset provisions removed :

- **Commercial vehicle proviso applied only to vehicles acquired between Oct 1998 and 31 Mar 1999 and put to use before 1 Apr 1999**
- **backward-area additional depreciation lifted the rate to 35% for new plant installed between Apr 2015 and Mar 2020 in notified States.**

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Simplification Strategy : Condensing

- **EXAMPLE : 1961 Act:**
  - Approval required from :

    Principal Chief Commissioner/Chief Commissioner, Principal Commissioner/Commissioner, Principal Director General/Director General, Principal Director/Director.
  - **The list is repeated. Visually cumbersome**
- **2025 Act:**
  - **"Competent Authority" – avoids repetitive wording.**

Simplification Strategy : Centralized Definitions

- Definition- "senior citizen" means an indl resident in India who is 60 yrs or more at any time …
- Appears in many sections
- In 2025 Act defined centrally in section 2(100).
- But "specified senior citizen" – 75 yrs+ in sec. 402 (old 194P) – TDS
- AOP/BOI provisions (67A, 86, 167B of 1961 Act) consolidated into Chapter XVII.

Simplification Strategy : Centralized Definitions

- Section 2(*32*) of ITA 2025 :
- **"Specified Banking or Online Mode"** shall mean transaction by an account payee cheque or an account payee bank draft or electronic clearing system …..
- And substituted everywhere.

Centralization of Definitions – Section 2

2025 Act has following new additions in section 2:

Accountant, Convertible Foreign Exchange, Co-operative Bank, Currency, Foreign Currency, Income Computation and Disclosure Standards, Indian Currency, International Financial Services Centre, Non-banking Financial Company, Permanent Account Number, Person of Indian Origin, Public Sector Bank, Recognised Stock Exchange, Reserve Bank of India, Scheduled Bank, Securities and Exchange Board of India, Senior Citizen, Special Economic Zone, Stamp Duty Value, and ***Valuation Officer***.

Removals Eg. : *Managing Agent, Fringe Benefits, National Tax Tribunal, Previous Year*

Notification in Gazette

- Section 2(*73*) of 2025 Act : "notification" means a notification published in the Official Gazette and the expression "notify" with its grammatical variations and cognate expressions shall be construed accordingly.
- Reduced occurrence of 'Official Gazette' from 300 in 1961 Act to just 2.

- Continuing……

What has been achieved

	EXISTING	NEW
WORDS	5.12 lakhs	2.60 lakhs
TABLES	18	57
SCHEDULES	14	16
CHAPTER	47	23
SECTION	819	536
FORMULAE	06	46

Major Word Reduction Areas

- Exemption : 30,000 to 13,500 (16,500)
- TDS/TCS : 27,453 to 14606 (12,847)
  (*from 65 sections to just 13)*
- NPOs : 12,800 to 7,600 (5,200)

Simplification : Australia

Simplified language, but increased the tax code's length:

Before simplification : 2,500 pages
After simplification : 4,318 pages, 09 volumes

The UK Tax Law Rewrite Project

- It increased the length of legislation from 960 to 2,413 pages.
- Corporation Tax Act 2009 alone consisted of 1,330 sections and four schedules.
- Capital Allowances Act 2001 → Income Tax (Earnings and Pensions) Act 2003 → Income Tax (Trading and Other Income) Act 2005 → Income Tax Act 2007 → Corporation Tax Act 2009 → Corporation Tax Act 2010 → Taxation (International and Other Provisions) Act 2010 → Income Tax (PAYE) Regulations 2003

Learning from Others

Improved clarity is essential

BUT

it was equally important to guard against an unnecessarily lengthier tax code.

Modernization of Cross-References

Not a simple "find-and-replace" job.

(i) **Companies Act, 1956** to **Companies Act, 2013**.

(ii) **Indian Penal Code, 1860** to **Bharatiya Nyaya Sanhita, 2023 (BNS)**

(iii) **Code of Criminal Procedure, 1973** to **Bharatiya Nagarik Suraksha Sanhita, 2023 (BNSS)**

(iv) **Indian Evidence Act, 1872** updated to **Bharatiya Sakshya Adhiniyam, 2023 (BSA)**

Refering to Sections : Then & Now

- Complex references such as :

"sub-clause (i) of clause (b) of sub-section (1) of section 133

IS NOW

"section 133(1)(b)(i)"

- Instantly readable, precise, visually clear. How most write

- Continuing……

WHY MORE FORMULAS

- Direct tax law frequently involves detailed computations
- When expressed solely in words become verbose, complex and susceptible to multiple interpretations.
- By presenting in clear formulae, provisions easier to understand.
- May appear a bit unfamiliar at first, but will be readily adapted to by users in no time.

Explanation 3 to section 64(1)

in the nature of contribution of capital as a partner in a firm, that part of the interest receivable by the transferee from the firm in any previous year, **which bears the same proportion to the interest receivable by the transferee from the firm as the value of investment aforesaid as on the first day of the previous year bears to the total investment by way of capital contribution** as a partner in the firm as on the said day shall be included in the total income of the individual in that previous year.

Formula-1 : Explanation 3 to section 64(1)

$$A = B \times C/D$$

A = Income to be included in the hands of the individual for the tax year

B = Income or interest or both, arising to the spouse or son's wife, from the business or the firm, as applicable during the tax year;

C = Value of such assets invested, or contributed as capital by the spouse or son's wife as on the first day of the tax year;

D = Total investment or total capital contribution, as the case may be, by the spouse or son's wife as on the first day of the tax year.

Structural Improvement : sec.- 2(22)(e)

1961 ACT

(*e*) any payment by a company, not being a company in which the public are substantially interested, of any sum (whether as representing a part of the assets of the company or otherwise) made after the 31st day of May, 1987, by way of advance or loan to a shareholder, being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) holding not less than ten per cent of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest (hereafter in this clause referred to as the said concern) or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits;

Structural Improvement

2025 ACT

(*e*) any payment by a company, not being a company in which the public are substantially interested, of any sum (whether as representing a part of the assets of the company or otherwise)–

(*i*) as an advance or loan to a shareholder, being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend, with or without a right to participate in profits) holding not less than 10% of the voting power; or

(*ii*) as an advance or loan to any concern in which such shareholder is a member or a partner and in which he has a substantial interest (herein referred to as the said concern); or

(*iii*) made on behalf, or for the individual benefit, of any such shareholder,

to the extent to which the company in either case possesses accumulated profits;

Structural Improvement : sec.- 291

(1961 ACT)

If it appears to the Central Government that any person to whom immunity has been tendered under this section has not complied with the condition on which the tender was made or is wilfully concealing anything or is giving false evidence, the Central Government may record a finding to that effect, and thereupon the immunity shall be deemed to have been withdrawn, and any such person may be tried for the offence inrespect of which the tender of immunity was made or for any other offence of which he appears to have been guilty in connection with the same matter and shall also become liable to the imposition of any penalty under this Act to which he would otherwise have been liable.

Structural Improvement : sec.- 519
(2025 ACT)

If it appears to the Central Government that any person to whom immunity has been tendered under this section –

(a) has not complied with the conditions on which the tender was made; or

(b) is wilfully concealing anything; or

(c) is giving false evidence,

the Central Government may record a finding to that effect, and thereupon the immunity shall be deemed to have been withdrawn.

Rounding Off

Rounding off of Income

Section 288A

The amount of total income computed in accordance with the foregoing provisions of this Act shall be rounded off to the nearest multiple of ten rupees and for this purpose any part of a rupee consisting of paise shall be ignored and thereafter if such amount is not a multiple of ten, then, if the last figure in that amount is five or more, the amount shall be increased to the next higher amount which is a multiple of ten and if the last figure is less than five, the amount shall be reduced to the next lower amount which is a multiple of ten…

Rounding off Amount Payable and Refund Due

Section 288B

Any amount payable, and the amount of refund due, under the provisions of this Act shall be rounded off to the nearest multiple of ten rupees and for this purpose any part of a rupee consisting of paise shall be ignored and thereafter if such amount is not a multiple of ten, then, if the last figure in that amount is five or more, the amount shall be increased to the next higher amount which is a multiple of ten and if the last figure is less than five, the amount shall be reduced to the next lower amount which is a multiple of ten.

Rounding Off - new

516. The amount of total income computed or any amount payable or refundable under this Act, shall be rounded off to the nearest multiple of ₹10 ignoring any part of a rupee consisting of paise and thereafter if such amount is not a multiple of ten, then

(*a*) such amount shall be increased to the next higher amount which is a multiple of ten, if the last figure in that amount is five or more; or

(*b*) such amount shall be reduced to the next lower amount which is a multiple of ten, if the last figure is less than five,

and the amount so rounded off shall be deemed to be the total income of the assessee or the amount payable or refundable, as the case may be, under this Act.

Consolidation of identical sections

Section 30: Deductions related to rent, rates, taxes, repairs, and insurance for premises used for business, distinguishing tenant and owner situations, and specifying that repairs allowable only if not capital in nature.

Section 31: Deductions allowed for repairs and insurance of machinery, plant, and furniture used for business, also limited to current repairs excluding capex.

In 2025 Act : these two sections merged in a single section.

- Continuing ……..

Section 68

- **Cash credits (68) → Unexplained credits (102)**
- Clarifies that it covers not only cash, but all forms of credits - advances, deposits, gifts, loans, share capital, premiums

Section 68 (Debate)

102. (*1*) Where any sum is found credited in the books of an assessee maintained for any tax year, and—

(*a*) the assessee offers no explanation about the nature and source of such credit; or

(*b*) the explanation offered about the nature and source of such credit by assessee is not satisfactory in the opinion of the Assessing Officer,

then, the sum so credited shall be charged to income-tax as income ….

Section 68

- **Tax Publication – what if explains only 'marginally' or compelling mitigating circumstances exist? "The change shifts the litigation landscape"**
- ***Discretion, despite an unsatisfactory explanation, introduces subjectivity***
- ***unsatisfactory explanation logically demands an inference of taxability.***
- ***Credible reason for inability to furnish documents can also be considered 'reasonable' - records fire, natural calamity***

Section 68 – 237 ITR 570 (SC)

Smt. P.K. Noorjahan

- **A young lady of 20 years, purchased land**
- **Claimed that it was financed from income saved of properties left to her by her step-father.**
- **AO made the addition declaring the explanation unsatisfactory.**
- **ITAT - though explanation about nature/sources of money was not satisfactory, but it was impossible for assessee of such tender age to earn the amount.**
- **Specific discussion on 'may' add**

Section 69A/69B

(where assessee is found to be owner of any asset ….

- Asset defined to include Virtual Digital Asset
- Earlier 'found to be owner' modified to be 'found to be owned by or belonging to the assessee'
- Clarifies that applies even if legal owner is someone else on paper, but asset is enjoyed by beneficiary-assessee
- Earlier, tax on sec 68–69D was in section 115BBE
- Section 107 now incorporates the rate in the relevant Chapter itself.

Section 69D/106

Updating from *hundi*

- 2025 Act clarifies that borrowing/repayment through a negotiable instrument, such as promissory note, bill of exchange bearer cheque as per section 12 of N.I. Act, 1881 is also covered
- Move towards digital economy as against informal, non-banking credit/repayment channels

- Continuing ……..

Simplification Strategy : Shifting to Rules

Example : Faceless Assessment

- 144B (4381words) spelled out every step, including record transfer from FAO to JAO.
- Substantive law (rights, duties, powers) belongs in statute; procedure belongs to rules.
- Word Count Reduction : 4381 words to 498

Simplification Strategy : Shifting to Rules

Example : Faceless Assessment

- Unwieldy 32 sub-sections.
- Act should state what must be done (substantive rights/obligations).
- Rules specify how it should be done (procedure).

Shifting to Rules : Section 144B

RETAINED IN ACT:

- Sub-section (1): "assessment s*hall be made in a faceless manner*" - not optional
- Territorial area, persons, incomes, cases as specified by the Board retained
- Architecture: NFAC, AU, VU, RU, TU retained - as well as their faceless functions
- Ranks of faceless officers retained
- Electronic faceless communication mandate
- Transfer only with Board approval
- Core definitions

Shifting to Rules : Section 144B

- Why should technical specifications like hash functions and mobile app protocols be in the Act? - rigid, obsolete with tech advancement
- Rules must be laid before Parliament which can annul or modify them.
- Rules *ultra vires* the Act are void - Procedural rights are equally enforceable when prescribed in Rules.
- Rules cannot make faceless assessment optional, cannot permit physical interface where the Act mandates electronic communication.

Shifting to Rules : Section 144B

- **Criticism:** Section 273 delegates statutory right to personal hearing through VC to Rules
- **Response** - Section 273(4)(b)(i) statutorily mandates the substantive right of an "opportunity of being heard".
- Delegating procedural specifics to Rules enables adapting to evolving technology.

Criticism : Section 151A

- Section 151A was as expiring section and had a sunset clause prohibiting any direction after 31 March 2022
- It was not intended to continue indefinitely but had to be recodified.
- Section 532(2)(u) provides the overarching mandate for faceless.
- The deeming clause in section 536(2)(u) preserves all faceless schemes notified u/s 151A, which continue uninterruptedly (including penalties).
- Pending litigation regarding JAO vs FAO predates the 2025 Act and will continue as the new Act does not retrospectively invalidate it.

Repeals and Savings

536(2)(*u*) of 2025 Act :

any scheme which has been notified under the provisions of the repealed Income-tax Act with a view to eliminating the interface with the assessee or any other person, the said scheme shall be deemed to have been made—

(i) under the corresponding provisions of this Act; or

(*ii*) under section 532 where there is no such corresponding provision,

and shall continue in force accordingly;

[532. (1) The Central Government may, by notification, make a scheme so as to impart greater efficiency, transparency and accountability by ….]

Micro-definitional Provisions to Rules

Scenarios where an individual must file a return. For eg -

"owner of a motor vehicle other than a two-wheeled motor vehicle, whether having any detachable side car having extra wheel attached to such two-wheeled motor vehicle or not"

- 2025 Act delegates to Rules.
- Statute need not anticipate every edge case.

Can keep pace as vehicle technology evolves.

Shifting to Rules

- Procedural details shifted to Rules ensuring that the Act remains focused on substantive provisions.
- Matters which can be modified with greater flexibility and speed as circumstances evolve.
- Makes the law more agile and responsive, while keeping the Act uncluttered.

Simplification Strategy : Shifting to Rules

EXAMPLE : TRO

- Second Schedule of 1961 Act dealt with procedure for recovery of tax, empowering TROs with procedural authority to do so.
- Procedure now in Rules, reducing legislative bulk
- Substantive recovery powers of TRO, including power to arrest, retained in Act.

- Continuing……

WHY MORE TABLES?

Tabular format– efficient, clarity … compared to labyrinthine narrative structure

Example : Section 153 (existing) vs 286 (new)

- Section 286 organizes limitation periods in clear table with distinct columns
- Nature of Proceedings/Orders, Date from which time limit is to be calculated and Time Limit for Completion.
- Visible at a glance - no need to read through dense paragraphs –
- simply locate the relevant row in the table and immediately understand the applicable time limit/calculation method.

Limitation Dates Table

S.No.	Nature of Proceedings or orders	Date from which time limit for completion is to be calculated	Time limit for completion
1.	**Assessment order under section 270(10) or section 271.**	**End of the financial year succeeding the relevant tax year for which assessment is made**	**One Year**
2.	**Assessment order under section 270(10) or 271, where an updated return of income is furnished under section 263(6).**	**End of the financial year in which such updated return was furnished**	**One Year**

Tables, Schedules, Formulaes - modernization, with digital-first tax administration.

- 2025 Act's tabular format, enable easy indexing, searching/updating in digital case management systems
- Should facilitate automated assessment software and AI-assisted tax tools

Why section 54 series on CG Shelters Remains in Narrative Format

- Provisions contain multiple layers of conditions, exceptions and scenario-based outcomes.
- Key terms vary substantially.
- Many outcomes contingent on user-specific facts, making a simple, self-contained table unusable.
- Tabulating was leading to excessive footnotes and fragmented content

Consolidation

- Registration of valuers is now covered directly in section 514 of the new Act.
- Establishes a registration mechanism for valuers in new Act.
- Earlier, valuation-related procedures required reliance on repealed Wealth-tax Act. This dependency removed.

- Continuing ……..

Updating
(and not new)

- Section 501(3) seemingly introduces new definitions for “electronic mail” and “electronic mail message”
- But it merely codifies terms in the now-omitted section 66A of IT Act, 2000, which ‘orphaned’ Expln to section 282.

Improving User Experience: TAX YEAR

- 1961 Act: (i)Previous Year, (ii) Assessment Year (iii) Financial Year.
- Under 1961 Act, taxpayers earned income in PY, but filed returns in the subsequent AY.
- Taxpayers had to juggle two different year references
- "Previous Year" linguistically suggested a past or earlier period, even though it actually referred to the current year in which income was being earned.
- Confusing for international taxpayers.

TAX YEAR

- Section 139(1) : person has to file a return of income disclosing the income earned in a **Previous Year.**
- However, the return form displays **Assessment Year.**
- Taxpayer relates earning of income to particular **Financial Year.**
- However, notices/orders received from Dept always refers to **Assessment Year**, which is not the **Financial Year** in which he earned income.

Improving User Experience: TAX YEAR

- 'Tax Year' is now the unit period of taxation;
- It is the 12 month period from Apr 01 to Mar 31
- Tax Year replaces 'Previous Year' & 'Assessment Year'
- Now, no confusion between FY/PY/AY in notices/asstts
- All transactions/income wrt the relevant Tax Year

Tax Year : Summary

- Total income is now for Tax Year
- Tax is now charged for Tax Year at rates specified.
- Return of income is to be filed for Tax Year.
- Asstt proceedings will relate to Tax Year instead of Asstt. Year.
- All legal effects and consequences will correspond to the Tax Year.
- This unification eliminates confusion of dual system of PY and AY.

TAX YEAR

Financial Year retained for compliance timelines and procedural matters

EXAMPLE :

(i) "due date" of filing ITR means date of financial year succeeding the relevant tax year

(ii) Any person may file a revised return …in 9 months from the end of the relevant tax year ….

Improving User Experience: ‘relative’

- CLARITY

The change in definition of “relative” in 2025 Act, compared to 1961 Act, includes maternal and paternal lineal ascendants.

ie., relatives from the mother’s and father’s side, removing ambiguity in 1961 Act (which was silent on this)

(Tax publication comment : law is still silent on which side the lineal ‘descendants’ of an individual should be considered as 'relative.’ - sec 56(2)(x)]

Improving User Experience: 133(6)

- Subtle but important improvements :

In 133(6), the general power to call for information from banks and digital platforms) was located at clause (6), towards the end of the section.

In the 2025 Act, it has been shifted to the very first clause of the corresponding section (252), making it the headline provision due to its frequent use.

Updated Return – Subtle Rationalization

Reduce Litigation

- **1961 Act** - AO has **information** in respect of such person for the relevant assessment year **in his possession** under the Smugglers and Foreign Exchange Manipulators Act etc …….and the same has been communicated to him, prior to the date of furnishing of return
- **2025 Act** - AO is in possession of information in respect of such person for the said tax year regarding **violation of specified laws** and the same has been communicated to him prior to the date of furnishing of updated return.

- Continuing ……..

PoEM Definition – Subtle Fix for Clarity

- The word "entity" in PoEM definition replaced with "company" in 2025 Act.
- A small but apt correction to clarify the test strictly with corporate residency.
- Removes even stray interpretational doubts about non-company entities falling under PoEM.

Repeals and Savings

- All rights/liabilities fully protected through Repeals and Savings provision (section 536).
- Specific clause for removal of difficulties (section 535) included, for issuing of directions should any difficulty arise in giving effect to the new Act.

Law and Procedure As It Then Stood

Section 536(2)(c) of 2025 Act:

Provisions of repealed 1961 Act shall continue to apply to :

(i) any proceeding pending on the date of commencement of this Act, and

(ii) to any proceedings initiated on or after the 1st April, 2026 for any tax year beginning before 01 April, 2026

Law and Procedure As It Then Stood

Section 536(2)(c) saves ***all*** provisions of 1961 Act for pending and pre-2026 proceedings, including obsolete, redundant or omitted.

It revives the whole of repealed Act, not a selected set. Hence :

(i) Every provision that ever existed in the 1961 Act, including those omitted as redundant, continues to operate for pre-2026 proceedings.

(ii) Appeals in HC/SC will continue and decided as per repealed Act

Advance Tax

Provisions segregated to avoid confusion:

- ***payment by the assessee***
- ***payment as per AO.***

Formula for computing advance tax

- Continuing ……..

Search Procedure

- Search provisions of 1961 Act presumed a largely paper-based economy.
- Assumption was that financial records existed as physical documents.
- that assets were locatable through physical presence.
- The economy digitized. Critical financial information is often stored digitally, in cloud environments, or in encrypted devices, rather than in physical files.
- A person might have cryptocurrency holdings that never physically reside on their premises but exist in digital wallets.

Searches – Debate

- **"computer system"** means computers, networks ….communication devices, digital or electronic data storage devices and includes remote server or cloud server or **virtual digital space;**
- **break open lock of any door, box, locker, safe, almirah or other receptacle** or **override access code to any computer system,** where keys or access to such building, place, etc., or access code to such computer system **is not available;**

Information Holders

- The old Act presumed that a person in possession of "specified assets representing undisclosed income" was the primary target.
- But in a modern economy, information about assets is often held by intermediaries. A cryptocurrency exchange holds information about holdings
- Now, requires any person, who is found to be in possession/control of books of account maintained in form of electronic record, to afford the authorised officer with such reasonable technical and other assistance (including access code… as may be necessary to enable the AO to inspect such books …

Search : General Updating

- 2025 Act introduces only an updating change, expanding the scope of books of account to include records stored on modern digital and cloud-based platforms such as Google Drive, Dropbox, and OneDrive, Digital Wallet, memory cards, portable external devices
- And not just floppies ….

Updating law for searches

- modern reality : key financial or asset-related data is often stored in encrypted devices (double zero)
- Access requires passwords, biometric authentication, or cryptographic keys.
- formalises practice of seeking digital access credentials (passwords) during searches, by mandating their disclosure.
- Earlier done on request - now backed by law - procedural clarity.

Searches : Updating Law

- Powers operate strictly for a search
- starts on execution of search warrant - ends when search is concluded.
- Thereafter, no authority to access digital records/override encryption.
- Not a general surveillance tool or tracking digital activity.
- limited to a minuscule portion of the assessee base
- section 138 / Cyber Labs / party-witness / SOP
- Few instances of unauthorised leakage of sensitive assessee information

- Continuing ……..

Inclusion of Black Money Act

	1961 Act	2025 Act
Scope	Undisclosed income/ property not disclosed under Income-tax Act warranted search. Focus was on domestic undisclosed income/assets.	2025 Act also covers undisclosed income/property not disclosed under Black Money Act, 2015. any person is in possession of any asset or information in relation to any asset and such asset represents income or property which has not been disclosed, for Black Money Act, 2015

Asset Holder vs Information Holder

Aspect	1961 Act	2025 Act
Scope	Search when person in possession of specified assets representing undisclosed income/property.	2025 Act clarifies to include any person in possession of information related to specified assets (not only physical possession) – data custodians, intermediaries may be subject to search

292C/524 : Presumption as to assets, books of account, etc

- 1961 Act 'presumed' that physical assets/documents found during search belonged to the person and their contents were true.
- 2025 Act updates by extending same presumption to digital assets (like cryptocurrency), electronic records and data exchanges on computer systems
- makes it clearer that electronic information (like emails, messages, or files) exchanged between parties, law will presume that such exchange also actually occurred between them.

Simplification of Dispute Resolution
Consolidation

Provisions regarding Appeals, Revisions and Alternate Dispute Resolution which were scattered in various different chapters…….Now rearranged under a single Chapter XVIII.

- **Appeals to JC, CIT, ITAT, HC, SC : Part A (**'reference' to HC omitted)
- **Repetitive Appeals : Part B**
- **Revision : Part C**
- **DRC : Part D1**
- **Advance Rulings : Part D2**

Every remedy is now clearly positioned and easy to refer to

Appeal to Tribunal 253/362)

- 2025 Act replaces cluttered section 253 with a short, structured list.
- 1961 Act named many sections -154, 250, 270A, 271AAB, 12AA, 80G, etc
- 2025 Act groups them primarily by CIT(A), PCIT, CCIT, AO

Eg – "*an order passed under this Act, by a Commissioner (Appeals) or a Joint Commissioner (Appeals)*" -

- two penalties appealable before CIT(A) - 271AA and 271G, but not included in ITAT appeals list now covered.

Salary

- Section 15 & 16 : What all is ‘Salary’
- Section 17 : Perquisite
- Section 18 : Profit in lieu of salary
- Section 19 : Deductions from Salary

What is ‘Salary’?

EXAMPLES:

Annuity & Pension	:	Regular income after retirement
Gratuity	:	Lump sum on retirement or leaving job
Leave Encashment	:	Payment for unused leave at retirement

‘Perquisites’ (Extra Benefits)

EXAMPLES TAXABLE PERQUISITES:

- Value of Rent-free apartment provided by employer
- sum paid by employer for obligation payable by assessee
- Sweat Equity
- Contribution, in excess of 7,50,000/- in a tax year, made to the account of the assessee by employer in a recognized provident fund

Profits in Lieu of Salary

EXAMPLES:

Compensation on Job Loss	:	Money paid when employer terminates your job
Joining/Leaving Bonus	:	Money paid before starting or after ending job
Pension Commutation	:	Lump sum received instead of monthly pension
Voluntary Retirement	:	Payment if leaving early with consent

Perquisites

- 1961 Act : If an employee's salary exceeded Rs. 50,000, for some employer-provided benefits (vehicle, etc.) became taxable perquisites.
- 2025 Act : replaced 50,000/- with "such amount as may be prescribed
- enables the adjustment of taxable threshold more easily

Salary – Improvements

Important provisions related to Salary :

- DCR gratuity
- Commuted pension
- Retrenchment compensation
- VRS
- Leave Encashment

Earlier scattered across Chapters, now consolidated under "Salaries" chapter.

Both inclusion and deduction in one chapter - no need to cross-refer b/w chapters/sections for computing salary income and claiming related exemptions.

Salary – Advantage

- Compute taxable salary by adding 5 terminal receipts (Gratuity, Pension commutation, Retrenchment, VRS, Leave encashment)
- Then apply 5 relevant deductions from one table (sec 19)
- Primarily salary provisions (sections 15-19) contain employment-related items cohesively.

Example of how this will help

Retiree receiving Rs. 25 lakhs gratuity faced challenges coz gratuity was in separate 'Exemptions-sec 10' chapter, apart from the salary section.

He had to claim exemption separately from salary income, causing mismatch in automated processing which often rejected exemption claims, when gratuity income was not reflected in total salary income.

Under 2025 Act, all salary components are consolidated in a single chapter, with exemptions/deductions listed immediately below (or signposted to Schedule).

No change in taxability.

- Continuing ……..

Clear statutory direction to Schedules

How does a taxpayer know about Schedules while reading the Salary Chapter?

EXAMPLE: **18(2) Payment referred in sub-section (1)(c) shall not include any payment referred to in:**

(a) Schedule II (Table: Sl. No. 3);

(b) Schedule II (Table: Sl. No. 4);

(c) Schedule II (Table: Sl. No. 8); and

(d) Schedule III (Table: Sl. No. 11).

Taxpayer must consult these Schedule entries to determine excluded payments.

Salary Caps

- Track all exit benefits (gratuity, leave, VRS, commuted pension) for prescribed ceilings.
- Gratuity is not fully tax-free nor is Leave Encashment. Excess is taxed as salary income. VRS compensation is capped at ₹5 lakh for deduction.
- Amount exceeding this limit are taxed as salary income.

New Tax Regime

- New Tax Regime has now been placed separately in part-C of Chapter XIII.
- A separate section 205 has been inserted to provide for common provisions applicable to section 199 to section 204. This shall remove repetitions.

Changes in section 10 – Exemptions

- Longest single section in any statute
- Around 140 clauses in section 10 of 1961 Act, with many Explanations and Provisos.
- Now moved in 6 Schedules - in tabular form –
- eligible income, persons and conditions.
- Reduced word count significantly.

Exempt Income

SEPARATE SCHEDULES

- **Incomes exempt for all taxpayers – eg. agri income, Sukanya Samriddhi**
- **For NRIs**
- **For Business Trusts, Sovereign Wealth Funds etc**
- **IFSC units**
- **Recognised Provident Funds, Coffee Boards, etc**
- **Partners of firms and HUF, daily allowances received by MPs, LTC, etc**

Schedules

Some new Schedules added in 2025 Act :

- Sch I: Conditions for certain activities not constituting business connection in India
- Sch III: Income not to be included in total income of eligible persons (Sec 11)
- Sch VIII: Income not to be included in total income of pol. Parties/electoral trusts
- Sch IX: Deduction for tea, coffee and rubber
- Sch X: Deduction for Site Restoration Fund
- Sch XVI: Permitted Modes of Investment or Deposits

Schedules

- **Redundant Schedules removed:**
  - 5th Sch (List of Articles and Things) - Sec 33
  - 8th Sch (Industrially Backward States/UTs) - Sec 80-IA(2)(iv)(b)
  - 12th Sch (Processed Minerals and Ores) - Sec 80HHC(2)(b)(ii)
  - 13th Sch (List of Articles and Things) - Sec 80-IB(4), 80-IC(2)
  - 14th Sch (List of Articles or Things or Operations) - Sec 80-IC(2)
- **Procedural Schedules shifted to Rules:**
  - 2nd Sch (Procedure for Recovery of Tax)
  - 3rd Sch (Procedure for distraint by assessing/tax recovery officer)

Section 10 – Exempt Income

- **Schedule II has been designed with 2 columns :**

Sl. No.	Income not to be included in total income	Conditions
1	B	C
2	**Agricultural income**	**Nil.**

Exempt Income

Sl.	Income not to be included in total income	Eligible persons	Conditions
A	B	C	D
1.	Any sum received by a member from Hindu undivided family	An individual who is a member of a Hindu undivided family	(a) Such sum is not covered under the provisions of section 99(3) and (4); and (b) such sum has been paid out of– (i) the income of the family; or (ii) the income of the estate belonging to the family, in the case of any impartible estate.

Exempt Income

The income made exempt is the same.

The persons enjoying exemption shall continue to enjoy exemption

The conditions for enjoying income as exempt remains the same.

Procedural conditions like notification by Board, prescriptions for rules and also approving authority for granting them remain the same.

- Continuing ……..

House Property

- Enhanced deduction for interest on borrowed capital allowed up to Rs. 2 lakhs for up to two self-occupied properties on satisfaction of certain conditions, including that property is acquired/constructed with capital borrowed on or before 01.04.1999
- In 2025, this condition has been removed.
- Interpretation is that interest on capital borrowed before 1st Apr 1999 is now also eligible for enhanced deduction,
- it is redundancy-rationalization.

PoEM Definition – Subtle Fix for Clarity

- The word "entity" in PoEM definition replaced with "company" in 2025 Act.
- A small but apt correction to clarify the test strictly with corporate residency.
- Removes even stray interpretational doubts.

Simplification of Deductions-L

Old Chapter VI-A was lengthy, with scattered themes, multiple provisos, and explanations.

New Chapter VIII streamlines deductions in 5 thematic categories:

A. General

B. Deductions in respect of certain payments

C. Deductions in respect of certain incomes

D. Deductions in respect of other incomes

E. Other deductions

Interpretation of Undefined Terms in DTAA

Section 159(7) - 2025 Act

The 2025 Act clarifies that if a term remains undefined after checking the DTAA, Income Tax Act and Central Government notifications, its meaning may be taken from :

(i) any Central Act relating to taxes, or

(ii) any other Central law.

- **Removes ambiguity and reduces litigation by clarification**

Recording of Statements during Survey

	1961 Act	2025 Act
	Section 133A(3)(iii)	Section 253(5)(b)
	Authority may record statement of any person, not on oath.	**Authority may record statement of any person on oath.**
	To collect information useful or relevant to any proceeding.	Same purpose, but statements strengthens evidentiary value.
	Statements not admissible as evidence (not on oath).	Statements on oath admissible as evidence.
	Limited evidentiary value under survey.	Rationalised for parity with sections 131 & 132(4).

Recording of Statements during Survey

- **Both search and survey are statutory instruments serving identical purpose of uncovering tax evasion evidence.**
- **No *CIT vs S. Khader Khan* (352 ITR 480, SC) override - Neither HC/SC declared that recording statements under oath during survey is improper, unlawful or ought never to occur.**
- **They address the absence of statutory power and not its inadmissibility if legislatively conferred.**

Effect to Appellate/Revisionary Orders

Aspect	1961 Act	2025 Act
Initial limit	3 months	6 months
Extension limit	6 months	3 months
Rationale	Difficulties in reconciliation	Extended for practicality

Impact : Reduces grievances; rationalises timelines for better closure.

DRP Directions

	1961 Act	2025 Act
	144C(6)	275(6)
	Before issuing directions, DRP shall consider the following: • Draft assessment order • Objections filed by the assessee • Evidence furnished by the assessee • Report of the AO/TPO • Records relating to the draft order • Any other relevant material available on record, and provide an opportunity of being heard to the assessee.	DRP shall issue its order in writing, stating the points for determination, the decision thereon, and the reasons for such decision.

Debate - sec 122 – Problem Statement

Distinguished Tax Commentator

New section 122(5) - no deduction under Part C of Chap XII shall be allowed where the assessee:

(a) fails to furnish the return of income within due date prescribed u/s 263(1); or

(*b*) omits to make a claim for deduction in such return of income.

First limb is earlier section 80AC, but second limb - denial of deduction if not claimed in original return – "marks a drastic departure from settled law" … will completely foreclose deductions merely because they were not claimed in original return….. *Western Arch Developers* [2025] 177 tm.com 313 (Bom.) / Article 265 cited

Debate - sec 122 – Solution

Sections 80A(5) and 80AC(5) when harmoniously read together, then:

- 80A(5) : claim must be made in the return itself; and
- 80AC(5): this return to be furnished on or before due date u/s 139(1).

- Combined effect in 1961 Act is exactly what section 122(5) of 2025 Act now states in one place ….
- that deduction is allowed only if the assessee, both files return on time and makes claim in that same on-time return
- Section 122(5) simply merges the two in a single, clearer clause.
- Western Arch Developers is on something else.

Two Inclusive Defns – Problem Statement

Distinguished Tax Commentator

Sections 2(49) & 2(109) – in the recently introduced ITA, 2025 , definition of *"income"* and *"transfer"* are open-ended, using "includes."……This expansive drafting risks blurred boundaries, ambiguity and avoidable litigation.

REPLY : Both the 1961 and 2025 Acts define "income" [s.2(24) vs. s.2(49)] and "transfer" [s.2(47) vs. s.2(109)] in same inclusive manner.

Two Inclusive Defns – Problem Statement

Section 2(109)(*f*) of new Act states that "transfer" includes any transaction, whether by acquiring shares or membership in an association, or "by way of any agreement or arrangement or in any other manner“ - that has the effect of transferring or enabling the enjoyment of immovable property, even without a registered instrument.

Clause is silent on whether the underlying agreement must be registered or stamp duty paid. An unregistered arrangement that merely "enables enjoyment" could be treated as a transfer for tax purposes. That reading would (*a*) erode centrality of registration and transfer of property law, (*b*)create friction with Prohibition of Benami Property Transactions Act, 1988, and (*c*) expose taxpayers to premature or double tax triggers.

This runs contrary to well-settled principles of property law, which recognize transfer of title only through duly stamped and registered documents.

Two Inclusive Defns – Solution

- Section 2(109)(f) of 2025 Act is identical to section 2(47)(vi) of 1961 Act…both include in "transfer" *any transaction, agreement, or arrangement that has the effect of transferring or enabling the enjoyment of immovable property.*
- Hence, the criticism that 2025 Act treats unregistered or unstamped arrangements as "transfers" is misplaced …this position already existed since 1987 [when section 2(47)(vi) was inserted].

Modernizing-Clubbing

1961 Act - In computing the T.I. of an indl, there shall be included all such income as arises directly or indirectly to spouse …. Provided that nothing in this clause shall apply … where the spouse possesses technical or professional qualifications and the income is solely attributable to the application of his technical or professional knowledge and experience

2025 Act : but shall not include income solely attributable to the application of technical or professional knowledge, experience and technical or professional qualification of the spouse;

Modernizing-Clubbing

COMMENT : 2025 Act cover cases where a spouse applies technical or professional knowledge and experience without formal qualifications.

REPLY : The provision does not insist that the spouse must hold formal qualifications - practical experience or technical knowledge can suffice.

Clarifies correctly that clubbing exemption is beyond formal qualification to cover skilled spouses without certificates.

Shift from credentialism to competence-based treatment - better serves anti-avoidance while remaining fair to genuinely productive spouses.

Clubbing

- For eg., if a spouse is a self-taught software developer earning income from freelance coding, this income won't be clubbed with the other spouse's income
- even if the earning spouse has not completed a formal software degree.
- Exemption applies because income is attributable to technical knowledge and experience of spouse.

THANK YOU